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Message Text

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FOR AMBASSADOR JEAN WILKOWSKI

E.O. 11652:NA

TAGS: TATT, ESCAP

SUBJECT: ESCAP REGIONAL PAPER FOR UNCSTD

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1. KINNELLY CARRYING DESCRIPTION OF AID PROGRAM RELATED TO LDC NEEDS AS HIGHLIGHTED IN ESCAP PAPER. FOLLOWING COMMENTS DEAL WITH STATEMENTS ON MNC'S AND MAY BE DRAWN UPON AT YOUR DISCRETION.

2. THE ESCAP PAPER CITES CERTAIN MNC ABUSES AND GENERALIZES THAT THESE ARE TYPICAL OF MNC BEHAVIOR. ESCAP PAPER FAILS TO EXPLAIN THAT MNCS ARE IMPORTANT AGENTS OF TRANSFER OF
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S AND T MARKETING AND MANAGERIAL SKILLS TO LDCS. MNCS R AND D EXPENDITURES CONTRIBUTE SIGNIFICANTLY TO STOREHOUSE OF S AND T KNOWLEDGE AND MNC INVESTMENTS AND LICENSING ARRANGEMENTS CONTRIBUTE TO DIFFUSION OF INNOVATION. MNCS HAVE ACCOMPLISHED MUCH THAT IS CONDUCIVE TO THE SOCIAL AND ECONOMIC DEVELOPMENT OF LDCS. WHILE ABUSES SHOULD BE CURBED, IT WOULD NOT BE WISE FOR LDCS TO IGNORE THE BENEFITS THAT CAN BE AND ARE CURRENTLY BEING DERIVED FROM MNCS. ESCAP IS DOING LDC'S A DISSERVICE BY IMPLYING THAT MNCS ARE A NET LIABILITY TO LDC'S IN THE APPLICATION OF S AND T FOR

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DEVELOPMENT.

3. WITH REGARD TO IMPLICIT CRITICISM OF MULTINATIONAL CORPORATIONS THROUGHOUT THE ESCAP PAPER AND QUITE EXPLICITLY ON PAGE 47, IT MAY BE USEFUL TO CITE CONCLUSIONS OF AN ILO STUDY REPORTED IN THE ECONOMIST 11/22/75, P. 81):

A) MNCS HAVE CREATED TWO MILLION JOBS IN THE THIRD WORLD -- AN APPRECIABLE NUMBER SET AGAINST THEIR 54 MILLION KNOWN UNEMPLOYED IN 1975.

B) WHILE MNCS ARE ONLY NOW BEGINNING TO DO BASIC RESEARCH ON THE THIRD WORLD, THEY DO TRAIN PRODUCTION WORKERS AS MUCH AS INDIGENOUS FIRMS, AND TEND TO REPLACE EXPATRIATE MANAGERS WITH LOCALS AS FAST AS THEY CAN WITHOUT DISRUPTION.

C) WORKING CONDITIONS IN MNCS ARE IN LINE WITH, OR BETTER THAN, THOSE OF INDIGENOUS FIRMS. INITIALLY, THEY MAY PAY BETTER THAN INDIGENOUS FIRMS, BUT THEY GENERALLY ADAPT LATER TO LOCAL LEVELS. MOST MNCS ALSO ADAPT TO LOCAL LABOR RELATIONS PRACTICES.

4. IN ADDITION TO FOREGOING YOU MAY WISH TO SUGGEST THAT,
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CONTRARY TO CONCLUSION DRAWN P.47 ESCAP PAPER ON "RENTING TECHNOLOGY" IT HAS BEEN ARGUED THAT PROPRIETARY RIGHTS FOR INTELLECTUAL PROPERTY FOSTER DIFFUSION OF INNOVATION SINCE THEY GIVE INVESTOR/ENTREPENEUR ASSURANCE OF ADEQUATE RETURN ON INVESTMENT. IF EXCLUSIVITY OF TECHNOLOGY NOT PROTECTED, TECHNOLOGY MIGHT NOT BE APPLIED BECAUSE OF ABSENCE OF EXPECTATION OF SATISFACTORY RETURN ON INVESTMENT. OF COURSE IF GOVERNMENT OWNS OR CONTROLS MEANS OF PROTECTION, THEN GOVERNMENT MONOPOLY CAN SERVE SAME END AS PATENT PROTECTION.

5. CRITICISM ON PAGE 9 ESCAP PAPER THAT MNCS INVEST IN PRODUCTION OF LUXURY GOODS FOR UPPER CLASS IS NOT WELL THOUGHT THROUGH. MNCS RESPOND TO EFFECTIVE MARKET DEMAND IN LDCS. LDC GOVERNMENT CAN ADOPT POLICIES TO CHANGE MARKET DEMAND, FOR EXAMPLE, THROUGH TAXATION AND SUBSIDY PROGRAMS. MNCS WOULD THEN RESPOND TO MODIFIED MARKET DEMANDS.

6. THE FMME STUDY ON PUBLIC POLICY AND TECHNOLOGY TRANSFER CONTAINS CASE STUDIES WHICH CLEARLY DOCUMENT THE SIGNIFICANT TRAINING PROGRAMS INITIATED BY MNCS IN DEVELOPING COUNTRIES AND THE FACT THAT THEY ARE DESIGNED TO TRANSFER KNOWLEDGE TO HOST COUNTRY PERSONNEL. CASES SUCH AS HALCO (MINING) INC., WITH ITS COMMITMENT TO AFRICANIZATION OF OPERATIONS IN GUINEA, AND CONTROL DATA, WITH ITS MASSIVE TRAINING OF IRANIAN PERSONNEL FOR A COMPUTER TERMINAL JOINT

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VENTURE, ARE BUT TWO ILLUSTRATIONS OF THIS.

A) THAT SIGNIFICANT RESULTS IN TERMS OF MANPOWER DEVELOPMENT HAVE BEEN OBTAINED THROUGH TRAINING AND COMMUNICATION EFFORTS IS CLEAR. IN IBM WORLD TRADE AMERICAS/FAR EAST CORPORATION, OVER 99 OF THE CUSTOMER ENGINEERS ARE NATIONALS OF THEIR OWN COUNTRY; AND THEY ARE ABLE TO HANDLE 99.9 OF THEIR SERVICE CALLS WITHOUT EXTERNAL PHYSICAL ASSISTANCE. SIMILAR RESULTS ARE SHOWN IN THE CELANESE COLOMBIANA CASE
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IN WHICH THE PRESIDENT OF CELANESE COLOMBIANA, A COLOMBIAN, NOTES THAT THE FIRM'S "ENTIRE ADMINISTRATIVE, TECHNICAL AND OPERATING PERSONNEL ARE COLOMBIAN." HE ALSO MAKES CLEAR THE IMPORTANCE OF A CONTINUED RELATIONSHIP BETWEEN THE PARENT AND SUBSIDIARY COMPANY IN COLOMBIA." RESULTS SUCH AS THESE, IN WHICH THE KNOW-HOW NECESSARY FOR EFFICIENT OPERATION CLEARLY IS TRANSFERRED TO NATIONALS, REQUIRE LONG-TERM, CONTINUOUS INVESTMENT IN TRAINING, BOTH TO TRANSFER THE KNOW-HOW AND TO KEEP IT UP TO DATE.

B) NOT ONLY DO COMPANIES DO SIGNIFICANT AMOUNTS OF TRAINING OF THEIR OWN LOCAL EMPLOYEES AND CLIENTS, BUT MANY ALSO CONTRIBUTE TO GENERAL EDUCATIONAL EFFORTS IN THE HOST COUNTRY THROUGH SCHOLARSHIP PROGRAMS, EMPLOYEE RELEASED TIME, PROVISION OF MATERIALS, OR SPECIAL PROGRAMS. FOR EXAMPLE, THE PARTNERS OF A MAJOR U.S. ACCOUNTING FIRM IN BRAZIL CONTRIBUTE AN ESTIMATED 50 TO 60 HOURS PER YEAR TEACHING ACCOUNTING IN THE LOCAL BUSINESS SCHOOLS. ACCOUNTING BOOKS HAVE BEEN TRANSLATED INTO PORTUGUESE AND DONATED TO THE UNIVERSITY, AND A PRIVATE INTERNATIONAL INSURANCE COMPANY HAS DESGNED AND PUBLISHED A GENERAL INSURANCE TEXTBOOK IN SPANISH.

C) THE STARR FOUNDATION, WHICH WAS ESTABLISHED BY THE FOUNDER OF THE AMERICAN INTERNATIONA GROUP OF INSURANCE COMPANIES, HAS A PROGRAM AIMED AT EVENTUALLY PROVIDING A SCHOLARSHIP FOR A SEVERAL YEAR COURSE IN ACTUARIAL TRAINING IN THE UNITED STATES FOR STUDENTS FROM EACH OF THE DEVELOPING COUNTRIES IN WHICH AIG OPERATES. EACH YEAR, ONE NEW COUNTRY WILL BE ADDED UNTIL THE GOAL OF PERMANENTLY PROVIDING THESE SCHOLARSHIPS IN OVER 100 COUNTRIES IS REACHED. STERLING WINTHROP ROSS PHARMACEUTICAL CO. HAS FOR DECADES PROVIDED FINANCIAL ASSISTANCE TO MEDICAL, DENTAL,
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AND NURSING STUDENTS IN SOUTHEAST ASIA. THIS PROGRAM HAS RECENTLY BEEN EXPANDED TO AFRICA. AND, IN PERU, FOLLOWING THE EARTHQUAKE OF 1970, STERLING WINTHROP ROSS'S LOCAL BRANCH ORGANIZED AN INSTRUCTIONAL TEAM OF PERUVIAN EXPERTS

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WHO TOURED THE NATION CONDUCTING DISASTER-PLANNING SYMPOSIA.

D) THESE ARE ILLUSTRATIVE EXAMPLES TO INDICATE SCOPE AND TYPE OF GENERAL EDUCATION ASSISTANCE PROVIDED BY MANY COMPANIES. SUCH PROGRAMS ARE UNDERTAKEN BECAUSE MANPOWER DEVELOPMENT IS IN LONG-TERM INTEREST OF THE COMPANY THROUGH UPGRADING GENERAL LOCAL SKILL LEVELS AND ENHANCING THE COMPANY'S IMAGE. AS WITH IN-HOUSE CLIENT AND TRAINING PROGRAMS, THESE LOCAL EDUCATIONAL PROGRAMS ALSO SERVE TO ENHANCE THE LOCAL ENVIRONMENT FOR TECHNOLOGY UTILIZATION, ADAPTATION, AND DISSEMINATION. MANY MNCS HAVE LONG-TERM STRATEGY OF IDENTIFYING WITH LDC GROWTH AND WISH TO SUPPORT AND BE PART OF IT, THEREBY MAINTAING THEIR POSITION IN GROWING MARKET.

7. WITH REGARD TO THE DICHOTOMY UNDERPINNING THE REFERENCED PAPER AND MOST EXPLICITLY STATED ON PAGE 30, NAMELY, THAT IN THE DEVELOPED COUNTRIES CHOICE, DEVELOPMENT AND TRANSFER OF TECHNOLOGY IS UNDERTAKEN BY THE PRIVATE SECTOR WHEREAS IN THE DEVELOPING COUNTRIES THE STATE MUST TAKE PRIMARY RESPONSIBILITY FOR THESE ACTIVITIES, THE FOLLOWING ARGUMENT MIGHT BE POSITED:

A) A TECHNOLOGY TRIANGLE, BASED ON GOVERNMENT POLICIES THAT SUPPORT TECHNICAL ADVANCE, EDUCATION INSTITUTIONS THAT ENGAGE IN KNOWLEDGE PRODUCTION THROUGH R AND D, AND PRIVATE SECTOR STRUCTURED TO GENERATE, RECEIVE, AND UTILIZE TECHNICAL ADVANCES CONSTITUTES THE BASE OF RAPID TECHNICAL ADVANCE. THIS TRIANGLE WHICH IS SUPPORTED BY LARGE SCALE GOVERNMENT FUNDING IN MOST DEVELOPED COUNTRIES, NEED NOT BE UNIQUE TO THE DEVELOPED WORLD AND, INDEED, NEEDS TO BE CREATED IN THE DEVELOPING COUNTRIES. SUCH A UNCLASSIFIED

TRIANGLE CAN BE STIMULATED BY INCREASED TECHNOLOGY TRANS-FER.

B) IN ATTEMPTING TO ESTABLISH A MUTUALLY BENEFICIAL RELATIONSHIP BETWEEN A TECHNOLOGY OWNER AND A POTENTIAL TECHNOLOGY TRANSFEREE IN A FOREIGN COUNTRY, A PRINCIPAL RESPONSIBILITY RESTS WITH THE HOST COUNTRY TO EFFECT A BALANCE BETWEEN LEGITIMATE PROTECTIVE MEASURES AND INDUCE-MENT TO ENCOURAGE A POTENTIAL TRANSFEROR TO EFFECT A TECHNOLOGY TRANSFER. IT IS OF GREAT CONSEQUENCE THAT THE HOST GOVERNMENT RECOGNIZE THE FACT THAT PRIVATE SECTOR TECHNOLOGY IS A PRIVATE ASSET WHICH HAS BEEN CREATED AS A RESULT OF THE EXPENDITURE OF SUBSTANTIAL SUMS OVER A SIGNI-FICANT PERIOD OF TIME WITH THE HIGH INHERENT RISK OF LOSS OF SUCH INVESTMENT. WHILE THE HOST COUNTRY UNDOUBTED-LY HAS LEGITIMATE OBJECTIVES IN SEEKING TO OBTAIN TECHNO-LOGICAL ADVANCEMENT IN PROMPT FASHION, SUCH OBJECTIVES SHOULD NOT BE ALLOWED TO TOTALLY OBSCURE THE CONTEXT

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WITHIN WHICH THE TECHNOLOGY WAS GENERATED AND IS OWNED.

C) IT IS BELIEVED THAT MOST INDUSTRIAL COMPANIES IN THE PRIVATE SECTOR COULD IN THE EXERCISE OF SOUND BUSINESS JUDGEMENT ACCELERATE THE TECHNICAL DEVELOPMENT OF THE THIRD WORLD COUNTRIES WHILE OBTAINING COMPENSATION FOR THE TECHNOLOGY WHICH WOULD AMOUNT TO A FAIR RETURN. AT THE THRESHOLD, HOWEVER, THE CRITICAL NEED WOULD APPEAR TO BE ESTABLISHMENT OF A PROPER CLIMATE WITHIN THE HOST COUNTRY THOUGHT ENACTMENT OF LAWS, REGULATIONS, AND PROCEDURES THAT WILL ATTRACT AND MAINTAIN THE INTEREST OF POTENTIAL TECHNOLOGY TRANSFERORS. INHERENT IN THIS APPROACH IS THE NEED TO PROVIDE CLEAR GUIDANCE NOT ONLY ON WHAT IS PROHIBITED BUT WHAT IS PERMITTED IN RESPECT OF TECHNOLOGY TRANSFER.
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8. IN VIEW OF STRONG CRITICISM OF INTERNATIONAL PHARMA-CEUTICAL INDUSTRY IN REFERENCED PAPER (P.14), THE COMMENTS OF THE PHARMACEUTICAL MANUFACTURERS ASSOCIATION (PMA) WERE SOLICITED AND ARE SET OUT BELOW FOR YOUR BACKGROUND INFORMATION.

A) BY MOST ECONOMIC MEASURES THE PHARMACEUTICAL INDUSTRY IS VIGOROUSLY COMPETITIVE. IN THE RESEARCH LABORATORY AS WELL AS IN THE MARKETPLACE THIS FREE ENTERPRISE RIVALRY HAS PROVIDED TANGIBLE BENEFITS TO LDC SOCIETIES AND OFFERS PROMISE OF MANY MORE. FULL AND OPEN COMPETITION ENSURES THAT PRODUCT PRICES ARE DETERMINED BY MARKET FACTORS. IT ALSO RESULTS IN SUPERIOR PRODUCT QUALITY AND SPECIALIZED SERVICES AS ENTERPRISING FIRMS STRIVE TO WIN THE FAVOR OF HEALTH PROFESSIONALS. IN SHORT, PHARMACEUTICAL FIRMS OPERATE IN A MARKET THAT EMBRACES TECHNOLOGICAL, SERVICE AS WELL AS PRICE AND OTHER COMPETITION. GOVERNMENT POLICIES THAT DISCOURAGE RATHER THAN REINFORCE THE STIMULUS,INITIATIVES AND DISCIPLINES OF THE MARKET SYSTEM ENDANGER PROGRESS IN THE STRUGGLE AGAINST STILL UNCONQUERED DISEASES.

B) THE PHARMACEUTICAL INDUSTRY IS UNIQUE, SCIENTIFICALLY AND FINANCIALLY BECAUSE OF THE COSTS AND RISKS OF RESEARCH IN THE FACE OF RAPID PRODUCT OBSOLESCENCE. IT IS ALSO COMMERCIALLY UNIQUE BECAUSE OF THE NATURE OF ITS PRODUCTS AND HOW THEIR USE IS DETERMINED. SALES OF PARTICULAR PRODUCTS, FOR EXAMPLE, VARY WITH FLUCTUATIONS OF ILLNESS IN THE POPULATION. THE INDUSTRY DEPENDS ON PHYSICIANS WHO WRITE PRESCRIPTIONS MORE THAN ON THE CONSUM-ERS WHO ACTUALLY USE THEM. AND IN MANY COUNTRIES GOVERN-MENTS REGULATE PHARMACEUTICAL PRICING AND MARKETING AND THUS DISTORT NORMAL MARKET MECHANISMS.

C) THE ECONOMICS OF THE PHARMACEUTICAL INDUSTRY, THERE-

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FORE, INEVITABLY DIFFER IN MANY RESPECTS FROM OTHERS. SOME OBSERVERS SAY THAT A MULTITUDE OF PRODUCTS REPRESENTS ECONOMIC WASTE. IN EFFECT, THEIR COMPLAINT IS THAT THERE ARE TOO MANY COMPETITORS AND THAT COMPETITION WASTES RESOURCES. OTHERS ARGUE THAT THE INDUSTRY IS NOT COMPETITIVE ENOUGH AND THAT ENHANCED RIVALRY WOULD IMPROVE THE ALLOCATION OF RESOURCES. OBVIOUSLY, BOTH SIDES CANNOT BE RIGHT.

D) THE DEGREE OF CONCENTRATION IN AN INDUSTRY IS A MOST COMMONLY ACCEPTED MEASURE OF COMPETITION BECAUSE IT SHOWS HOW MANY FIRMS HOLD SIGNIFICANT MARKET SHARES AT ANY GIVEN TIME. IN THE UNITED STATES, THE CENSUS BUREAU OF THE DEPARTMENT OF COMMERCE PERIODICALLY EXAMINES THE STRUCTURE OF AMERICAN INDUSTRIES AND COMPUTES THE MARKET SHARES OF THE FOUR LARGEST FIRMS AS A MEASURE OF CONCENTRATION. IT RECENTLY INDICATED THAT THE DEGREE OF CONCENTRATION IN THE PHARMACEUTICAL INDUSTRY FALLS INTO THE LOWER THIRD OF THE 450 INDUSTRIES EXAMINED.

E) ACCORDING TO THE NATIONAL SCIENCE FOUNDATION, THE PHARMACEUTICAL INDUSTRY IS THE MOST RESEARCH-INTENSIVE AND HAS THE HIGHEST RATIO OF COMPANY-FUNDED R AND D TO SALES OF ANY INDUSTRY. IN THE PAST DECADE, U.S. DRUG FIRMS HAVE SPENT $6.7 BILLION ON R AND D, AND THIS AMOUNT CAME ALMOST ENTIRELY FROM THEIR OWN EARNINGS. IN 1977 ALONE, OVERSEAS R AND D EXPENDITURES EXCEEDED $1.3 BILLION TO EQUAL 16 OF U.S. INDUSTRY'S GLOBAL R AND D FINANCING. THE RISING SHARE OF R AND D BEING PERFORMED OVERSEAS IS RELATED TO NATIONAL REGULATORY PRESSURES AND TO THE FACT THAT AN INCREASING PROPORTION OF NEW PHARMACEUTICAL COMPOUNDS DISCOVERED AND DEVELOPED BY U.S. FIRMS ARE BEING INTRODUCED FIRST ABROAD.

F) IT IS COMMON FOR OBSERVERS IN LDCS TO CRITICIZE THE LACK OF FULLY-INTEGRATED PHARMACEUTICAL PRODUCTION AND R AND D FACILITIES IN EACH COUNTRY, AND THE CONCENTRATION OF THE EXISTING INDUSTRY IN THE HANDS OF FOREIGN MULTINATIONALS. DEPNDENCE ON FOREIGN COMPANIES IS SOMETIMES INTERPRETED AS AN ABSENCE OF COMPETITION. BECAUSE OF THE ECONOMIES OF SCALE, IT IS NATURAL THAT THE MORE CAPITAL-INTENSIVE PRODUCTION PROCESSES, SUCH AS ANTIBIOTIC FERMENTATION, ARE USUALLY SITUATED IN THE LARGER DEVELOPED COUNTRIES, WHICH ALSO OFFER THE INTELLECTUAL INFRASTRUCTURE NECESSARY FOR R AND D. BUT THIS CERTAINLY IS NOT A PRIORI EVIDENCE OF EITHER DISCRIMINATION AGAINST DEVELOPING COUNTRIES OR PROOF OF A LACK OF COMPETITION. IN FACT, IT IS ONLY NATURAL

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THAT THE PHARMACEUTICAL INDUSTRY DEVELOPED IN ITS MAJOR MARKETS, WHICH HAVE BEEN AND STILL REMAIN IN THE MORE DEVELOPED NATIONS.

G) SOMETIMES, DIFFERENT MEDICINES WITH SAME GENERIC INGREDIENT MAY NOT WORK THE SAME IN ALL PATIENTS. THAT IS, DOCTORS AND GOVERNMENT ADMINISTRATORS NO LONGER AUTOMATICALLY ASSUME THAT PRODUCTS WITH THE SAME QUANTITY OF THE SAME ACTIVE INGREDIENT WILL PRODUCE THERAPEUTICALLY EQUIVALENT, OR BIOEQUIVALENT RESULTS IN THE PATIENT. AS A REPORT BY THE OFFICE OF TECHNOLOGY ASSESSMENT OF THE U.S. CONGRESS STATES, "CURRENT STANDARDS AND REGULATORY PRACTICES DO NOT INSURE BIOEQUIVALENCE FOR DRUG PRODUCTS." THE IMPORTANCE OF THE PROBLEM OR BIOAVAILABILITY WILL VARY AMONG DIFFERENT MULTIPLE SOURCE DRUGS. SINCE MEDICINES MAY NOT BE SUBSTITUTABLE, THE PRESCRIBING PHYSICIAN MUST CHOOSE THE APPROPRIATE PRODUCT ON THE BASIS OF HIS KNOWLEDGE OF THE PATIENT AND DRUG QUALITY, EITHER BY EXPERIENCE WITH THE BRAND OR BY REPUTATION FOR QUALITY ASSURANCE OF THE MANUFACTURER.

H) ALTHOUGH THE DRUG INDUSTRY IS MORE CAPITAL AND TECHNOLOGY INTENSIVE THAN SOME OTHERS, IT IS STILL A SUBSTANTIAL

EMPLOYER. IN 1974 THE U.S.-BASED PORTION OF IT EMPLOYED 264,000 PEOPLE WORLDWIDE. 110,900 OF THEM OUTSIDE THE UNITED STATES. OVER HALF OF THE INDUSTRY'S OVERSEAS EMPLOYMENT IS IN THE LESS DEVELOPED COUNTRIES, AND FOREIGN EMPLOYMENT IS INCREASING FASTER THAN DOMESTIC. ONLY A TINY FRACTION OF OVERSEAS EMPLOYEES ARE U.S. CITIZENS--ALMOST ALL ARE NATIONALS OF COUNTRIES IN WHICH THEY WORK. FURTHERMORE, IT SHOULD BE NOTED THAT A SUBSTANTIAL PORTION OF EARNINGS IS PAID AS TAXES TO GOVERNMENTS AROUND THE WORLD. IN 1977, U.S. PHARMACEUTICAL COMPANIES PAID A TOTAL OF $871 MILLION IN SUCH TAXES.

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